

LARGE CLASS I MOTOR CARRIERS OF PROPERTY SELECTED EARNINGS DATA

DISTRICT, CARRIER & YEAR		OPERATING REVENUES (\$ millions)	NET CARRIER OPERATING INCOME ¹ (\$ millions)	NET INCOME ² (\$ millions)	REVENUE TONS HAULED ³ (millions)	OPERATING RATIO ⁴ (percent)	RETURN ON EQUITY LESS INTANGIBLE PROPERTY ⁵ (percent)
Eastern District Total (33)		1983 \$6,840.3	\$333.8	\$206.6	65.4	95.1	15.23
		1982 6,203.8	134.2	84.5	62.4	97.8	6.19
Southern District Total (22)		1983 3,939.6	161.2	84.4	43.2	95.9	13.48
		1982 3,641.1	49.2	(0.6)	41.9	98.6	-0-
Western District Total (45)		1983 5,700.9	164.8	68.6	57.6	97.1	7.52
		1982 5,551.9	32.3	(7.0)	58.8	99.4	-0-
TOTAL ALL CARRIERS ⁶		1983 16,480.9	659.9	359.7	166.3	96.0	12.42
		1982 15,396.9	215.8	76.7	163.2	98.6	2.59

his institution focuses on four major points before deciding whether to grant or extend credit to trucking operations. Those four points, he says, will be the key factors for any carrier's survival during the rest of the decade.

"Management is our number one concern," Pierce says. "I want management with a track record—a proven ability to profitably survive in the present operating environment." This doesn't necessarily mean a management team that's been together for any fixed period, he clarifies. "But we need to be convinced the team can compete in a free market, and run that carrier at a very effective operating ratio."

Pierce's second concern is the carrier's market niche. Does the carrier really fill a need? How well does it perform compared to other carriers offering similar service?

Cost control is another vital area. "It's quite possible that management may be very good at marketing, but out of touch with cost control," Pierce says. "And you can't compete in today's cutthroat marketplace unless you have costs under control."

Before the Fall

Ironically, capital is a fourth area of concern for the Boston banker. Obviously, it makes a difference what kind of financial strength the carrier possesses," he explains. "But it's not our greatest concern. This simply means that given convincing arguments that the other three ingredients—management, market niche and cost control—were all present, we would be willing to take a risk."

continued

INDIVIDUAL CARRIERS DATA

Eastern District

A-P-A Transport Corp.	1983	\$87.3	\$17.0	\$7.8	0.4	80.5	30.11
	1982	81.4	13.7	6.1	0.4	83.1	29.20
Aero-Mayflower Transit Co.	1983	222.6	9.2	6.0	0.4	95.9	27.86
	1982	202.2	5.2	3.5	0.3	97.4	19.62
Allied Van Lines, Inc.	1983	300.2	3.7	4.3	0.5	98.8	26.19
	1982	273.9	(0.7)	1.7	0.5	100.3	9.84
Associated Truck Lines, Inc.	1983	193.8	1.3	(2.5)	1.9	99.3	-0-
	1982	183.1	(2.5)	(1.4)	1.8	101.4	-0-
Atlas Van Lines, Inc.	1983	133.1	5.2	3.5	0.2	96.1	12.57
	1982	127.5	4.5	3.2	0.2	96.5	13.69
Bekins Van Lines, Inc.	1983	171.2	3.9	2.7	0.3	97.7	11.43
	1982	174.4	4.3	3.8	0.3	97.5	19.16
Branch Motor Express Co.	1983	120.0	(5.7)	(4.1)	1.2	104.8	-0-
	1982	128.8	(7.9)	(10.7)	1.2	106.1	-0-
C&J Commercial Driveaway, Inc.	1983	61.6	4.8	2.5	0.6	92.1	32.24
	1982	45.0	0.9	0.2	0.4	97.9	3.63
Central Transport, Inc.	1983	213.5	19.8	18.9	4.7	90.7	200.07
	1982	136.9	2.2	3.2	3.3	98.4	38.79
Chemical Leaman Tank Lines	1983	147.8	0.6	(1.4)	5.5	99.6	-0-
	1982	151.7	(0.5)	(2.5)	5.4	100.3	-0-
Coastal Tank Lines	1983	58.4	(0.5)	(3.3)	2.2	100.9	-0-
	1982	66.3	(0.7)	(3.4)	3.0	101.1	-0-
Commercial Carriers, Inc.	1983	142.8	8.0	5.0	2.2	94.3	21.51
	1982	96.0	3.3	3.4	1.7	96.6	15.90
Commercial Lovelace Motor Freight, Inc.	1983	56.2	(2.6)	(2.1)	0.5	104.7	-0-
	1982	71.1	(7.6)	(5.3)	0.5	110.7	-0-
Duff Truck Line, Inc.	1983	53.5	(0.1)	(0.4)	0.7	100.1	-0-
	1982	53.1	(1.0)	(1.8)	0.6	102.0	-0-
Hall's Motor Transit Co.	1983	193.4	(6.0)	(9.4)	1.3	103.1	-0-
	1982	215.3	(8.9)	(11.9)	1.8	104.1	-0-
Holland Motor Express, Inc.	1983	72.9	7.5	4.6	0.6	89.6	27.05
	1982	57.9	3.1	2.1	0.5	94.5	13.86
Holmes Transportation, Inc.	1983	55.4	0.1	0.3	0.6	99.8	2.69
	1982	54.2	(0.3)	(0.3)	0.6	100.6	-0-
IMFS, Inc.	1983	193.0	(12.3)	(17.4)	1.1	106.4	-0-
	1982	226.6	(13.6)	(16.2)	2.2	106.0	-0-
Jones Transfer Co.	1983	57.0	3.6	2.7	1.1	93.6	40.40
	1982	46.9	(.5)	(2.3)	1.0	103.2	-0-
M&G Convoy, Inc.	1983	70.5	0.4	0.3	0.7	99.3	3.45
	1982	59.5	0.1	0.1	0.6	99.8	1.24
Matlack, Inc.	1983	171.3	5.5	1.0	7.5	96.7	2.79
	1982	156.1	2.8	(1.0)	6.8	98.2	-0-
National Freight, Inc.	1983	76.8	(0.7)	0.1	1.1	101.0	2.28
	1982	78.1	(1.0)	0.7	1.2	101.4	14.47
No. American Van Lines, Inc.	1983	555.4	16.0	19.9	2.5	97.1	15.22
	1982	491.2	20.2	21.4	2.1	95.9	14.35
Nu-Car Carriers, Inc.	1983	94.5	3.6	1.7	1.8	96.2	47.34
	1982	79.1	1.8	0.2	1.5	97.7	7.01
Oneida Motor Freight, Inc.	1983	55.1	0.6	0.3	0.4	98.7	5.44
	1982	49.9	(0.1)	0.1	0.4	100.3	2.36
Preston Trucking Co., Inc.	1983	263.4	11.9	6.6	2.6	95.5	9.93
	1982	218.0	6.1	5.1	2.0	97.2	7.38
R-W Service System, Inc.	1983	33.3	0.3	0.1	1.3	98.8	-0-
	1982	50.7	(0.4)	(1.1)	1.7	101.0	-0-
Red Star Express Lines	1983	95.3	9.5	3.5	0.6	90.0	10.25
	1982	88.6	6.4	2.8	0.6	92.7	7.77

FINANCIAL

These may be key areas for shippers to examine when evaluating new service, but how does one tell when an existing carrier is going sour? "The first sign is probably having a salesman for another carrier coming by your office to tell you how bad your existing carrier's financial situation is," says Alex Brown's Legg. "At that point, you should check up on your carrier's balance sheet, which the competitor will gladly give you. It's a dog-eat-dog situation out there."

Adds another analyst: "Rumors certainly are rampant before anything official happens, and it doesn't take a genius to look at the balance sheets published by the Interstate Commerce Commission to figure out who's in trouble and who's not. For example, the ICC reports that about 65 percent of the top 100 carriers had increased operating revenues in 1983, which means that 35 percent didn't. I'd really be concerned about a carrier that couldn't make money when industry tonnage is up substantially."

But shippers should be careful not to oversimplify carrier evaluations, the analyst says. "A number of carriers are playing the market share game," he notes. "Their most important concern right now is not profit, but market share, and they'll do whatever it takes to get or keep that share and bide their time."

"If a carrier doesn't have a staggering debt load, and if it has some cash reserves or a 'sugar daddy' such as IU International or ANR, it can afford to play market share," this analyst continues. "But when it's mortgaged to the hilt, it can't afford to play games."

The players' tactics only promise to get more daring in the coming days, observers believe. "There is a perception of a need to act more precipitously in 1984 than carriers did two or three years ago, when they had more alternatives to pursue," First Boston's Pierce explains. "An obvious development of a sick carrier that has gone too far before seeking remedies is that it begins to lose alternatives."

continued

		OPERATING REVENUES (\$ millions)	NET CARRIER OPERATING INCOME ¹ (\$ millions)	NET INCOME ² (\$ millions)	REVENUE TONS HAULED ³ (millions)	OPERATING RATIO ⁴ (percent)	RETURN ON EQUITY LESS INTANGIBLE PROPERTY ⁵ (percent)
Refiners Transport & Terminal	1983	48.0	(0.3)	(1.3)	6.0	100.7	-0-
	1982	50.3	(0.1)	(2.0)	6.2	100.0	-0-
Roadway Express, Inc.	1983	1,259.0	130.6	99.4	5.0	89.6	20.69
	1982	1,147.4	83.5	74.2	4.8	92.7	17.79
St. Johnsbury Trucking Co., Inc.	1983	209.0	12.3	4.6	1.6	94.1	16.77
	1982	167.2	10.4	5.0	1.3	93.7	20.07
Smiths Transfer Corp.	1983	315.3	8.0	3.8	2.1	97.4	7.14
	1982	270.2	(4.3)	(3.0)	1.8	101.6	-0-
Yellow Freight System, Inc.	1983	1,058.0	78.0	48.0	4.5	92.6	22.23
	1982	903.5	16.4	10.3	4.1	98.2	4.76
Total Eastern Carriers (33)	1983	6,840.3	333.8	206.6	65.4	95.1	15.23
	1982	6,203.8	134.2	84.5	62.4	97.8	6.19
Southern District							
AAA Cooper Transportation	1983	\$59.1	\$6.1	\$3.5	0.5	89.7	33.84
	1982	51.1	4.6	3.6	0.5	91.0	35.68
Alterman Transport Lines, Inc.	1983	45.5	1.4	0.6	0.4	96.8	4.15
	1982	44.4	0.5	(-)	0.4	98.8	-0-
Bowman Transportation, Inc.	1983	149.0	1.5	2.3	1.7	99.0	4.58
	1982	127.2	(2.8)	(1.7)	1.4	102.2	-0-
Brown Transport Corp.	1983	150.2	10.3	8.5	2.2	93.1	77.10
	1982	137.7	7.5	5.4	1.8	94.5	41.56
Carolina Freight Carriers Corp.	1983	327.3	23.0	11.5	1.9	93.0	30.19
	1982	268.3	11.9	6.0	1.7	95.5	17.96
Mason & Dixon Lines, Inc.	1983	158.0	(0.6)	(2.4)	1.6	100.4	-0-
	1982	149.0	(8.4)	(10.7)	1.4	105.7	-0-
McLean Trucking Company	1983	519.0	(6.1)	0.8	2.8	101.2	0.85
	1982	491.8	(22.3)	(22.8)	2.6	104.5	-0-
Melton Truck Lines, Inc.	1983	47.5	0.7	0.8	1.2	98.5	8.56
	1982	48.1	(0.4)	0.1	1.3	100.9	0.22
Mercury Motor Express, Inc.	1983	48.7	(2.9)	(1.6)	0.5	106.0	-0-
	1982	47.8	(2.9)	(1.4)	0.5	106.1	-0-
Miller Transporters, Inc.	1983	50.5	1.3	0.4	3.9	97.3	7.37
	1982	48.7	1.0	(0.8)	3.9	97.8	-0-
Old Dominion Freight Lines, Inc.	1983	130.8	3.1	1.0	1.9	97.6	8.33
	1982	104.5	3.5	0.7	1.7	96.6	5.93
Overnight Transportation Co.	1983	340.1	49.9	28.3	3.1	85.3	21.74
	1982	287.8	32.7	18.2	2.6	88.6	15.66
Pilot Freight Carriers, Inc.	1983	188.0	(7.9)	(9.4)	1.6	104.2	-0-
	1982	154.0	(7.5)	(7.8)	1.1	104.9	-0-
Poole Truck Line, Inc.	1983	64.8	8.7	6.3	2.3	86.4	49.26
	1982	55.3	3.2	0.7	2.2	94.1	5.90
RTC Transportation, Inc.	1983	154.0	3.4	0.1	2.7	97.7	0.17
	1982	157.4	6.4	2.1	2.6	95.9	18.66
Ryder/P-I-E Nationwide, Inc. ⁷	1983	1,005.6	31.6	10.8	7.2	96.9	9.25
	1982	1,016.7	3.6	0.2	8.8	99.6	0.22
Saia Motor Freight Line, Inc.	1983	47.4	6.4	3.7	0.5	86.4	21.25
	1982	48.3	5.5	3.6	0.5	88.5	24.93
Southeastern Freight Lines	1983	58.6	8.6	8.2	0.6	85.3	78.71
	1982	50.6	3.4	2.9	0.6	93.2	28.77
The Motor Convoy, Inc.	1983	68.9	0.8	0.2	2.6	98.7	13.10
	1982	56.0	(0.1)	(0.8)	2.3	100.2	-0-
Thurston Motor Lines, Inc.	1983	104.1	5.3	0.1	1.2	94.9	12.40
	1982	97.3	2.9	(1.7)	1.2	97.0	-0-
Transus, Inc. ⁸	1983	93.7	5.7	6.7	0.9	93.8	30.09
	1982	86.9	2.3	1.3	0.9	97.4	10.42
Watkins Motor Lines	1983	128.0	10.0	3.4	0.7	92.2	29.35
	1982	111.3	4.3	2.1	0.7	96.1	19.44
TOTAL SOUTHERN CARRIERS (22)	1983	3,939.6	161.2	84.4	43.2	95.9	13.48
	1982	3,641.1	49.2	(0.6)	41.9	98.6	-0-

FINANCIAL

For example, if lenders can work with troubled carriers early and provide sound counsel, there may be 10 avenues of change to explore. But if that same carrier waits another 18 months before trying its alternatives, its options get down to "one or two fairly drastic actions," according to Pierce.

Most of the carriers that are currently in dire financial straits have been in trouble for a couple of years at least, Pierce notes. Accordingly, they are rapidly losing their flexibility to respond to counsel.

"The alternatives for these carriers have greatly diminished compared to their position in 1980 or 1981," Pierce says. "As long as they still had a market share and the confidence of the shipping public, they had options. For example, they might have been able to work out a labor concession or make changes in their terminal operations."

"But now they don't have any capital left, they may have lost key management, or competition may have pre-empted them in an area where they should have moved. Their market share probably has eroded, and once it's lost, it's excruciatingly difficult to recapture."

"When we see a situation deteriorating under our noses to the point that we can't visualize any reasonable recovery, we now are more likely to take security faster than we would have before," Pierce adds. "Once we have exhausted all reasonable alternatives, and the carrier continues to lose money, we really have no choice but to call a default on the financing program."

For What It's Not Worth

Other industry analysts suggest that the banking industry's disinclination to foreclose on troubled loans during the early months of the decade was more likely attributable to the depressed market for trucks and terminals that prevailed during those years. "There's no point in liquidating a company if you can't get rid of the assets," says one analyst.

According to Legg, the first wave of closings were the companies who simply chose not to compete in the

Western District

		OPERATING REVENUES (\$ millions)	NET CARRIER OPERATING INCOME ¹ (\$ millions)	NET INCOME ² (\$ millions)	REVENUE TONS HAULED ³ (millions)	OPERATING RATIO ⁴ (percent)	RETURN ON EQUITY LESS INTANGIBLE PROPERTY ⁵ (percent)
ABF Freight System, Inc.	1983	\$349.9	\$6.3	\$3.4	\$2.0	98.2	-0-
	1982	302.9	(4.2)	(11.7)	1.9	101.4	-0-
Advance Transportation Co.	1983	58.8	0.8	0.1	0.6	98.5	2.42
	1982	49.5	0.3	(0.4)	0.5	99.2	-0-
American Freight System, Inc.	1983	268.6	11.5	6.6	1.6	95.7	21.92
	1982	241.6	(0.9)	0.1	1.5	100.4	0.12
Anderson Trucking Service, Inc.	1983	48.4	2.3	1.6	0.8	95.3	25.95
	1982	44.1	1.3	0.5	0.6	96.9	10.04
BN Transport, Inc.	1983	65.3	(4.2)	(4.8)	0.4	106.5	-0-
	1982	68.2	(1.6)	(0.7)	0.4	102.5	-0-
C & H Transportation Co., Inc.	1983	97.6	2.1	0.2	1.3	97.8	1.12
	1982	116.4	7.1	2.6	1.2	93.8	9.10
C.W. Transport, Inc.	1983	99.3	1.8	0.8	1.1	98.1	3.12
	1982	84.4	(2.8)	(1.4)	0.9	103.4	-0-
Campbell 66 Express, Inc.	1983	88.6	0.3	0.6	0.6	99.6	3.46
	1982	78.7	0.1	0.1	0.5	99.9	0.49
Central Freight Lines, Inc.	1983	175.5	6.4	4.6	2.2	96.3	7.40
	1982	187.7	4.2	6.1	2.5	97.7	10.59
Chemical Express Carriers, Inc.	1983	43.0	1.9	(0.1)	4.8	95.4	-0-
	1982	55.1	1.8	(0.2)	5.5	96.7	-0-
Churchill Truck Lines, Inc.	1983	72.5	4.5	2.5	0.5	93.7	33.86
	1982	58.5	0.9	0.5	0.4	98.4	7.08
Consolidated Freightways Corp.	1983	1,116.5	94.8	56.3	4.4	91.5	17.00
	1982	1,036.8	57.1	37.6	4.7	94.5	12.18
Crete Carrier Corp.	1983	62.7	3.3	2.4	1.1	94.7	26.78
	1982	59.2	3.5	2.3	1.0	94.0	33.66
CRST, Inc.	1983	70.1	2.8	1.7	1.2	95.9	23.14
	1982	72.0	3.2	1.4	1.3	95.5	22.32
East Texas Motor Freight Lines ⁶	1983	-0-	-0-	-0-	-0-	-0-	-0-
	1982	121.4	(15.5)	(4.9)	0.8	112.8	-0-
FFE Transportation Service	1983	58.7	1.4	0.8	0.7	97.5	14.83
	1982	55.9	(0.3)	0.1	0.6	100.6	1.71
Garrett Freightlines, Inc.	1983	168.5	8.8	3.4	1.1	94.7	12.83
	1982	148.2	4.2	2.0	1.0	97.2	5.45
Global Van Lines, Inc.	1983	75.3	1.7	0.7	0.1	97.6	7.79
	1982	67.7	1.1	0.3	0.1	98.4	3.80
Graves Truck Lines	1983	70.1	1.0	(1.6)	0.5	98.4	-0-
	1982	65.7	(1.3)	(1.3)	0.5	102.0	-0-
Groendyke Transportation, Inc.	1983	54.8	2.0	1.0	3.4	96.3	9.80
	1982	56.3	2.3	1.1	3.6	95.9	11.70
Illinois-Calif. Express, Inc.	1983	84.0	(5.6)	(6.4)	0.5	106.7	-0-
	1982	94.6	(1.9)	(3.7)	0.5	102.1	-0-
IML Freight, Inc.	1983	111.7	(9.1)	(7.6)	0.5	108.2	-0-
	1982	133.1	(11.4)	(15.0)	0.6	108.6	-0-
International Transport, Inc.	1983	84.7	(0.5)	(0.6)	0.6	100.7	-0-
	1982	113.5	3.7	1.3	0.8	96.7	5.93
Jones Truck Lines, Inc.	1983	158.7	10.9	5.7	1.6	93.1	11.83
	1982	128.2	7.0	4.4	1.3	94.5	9.30
Lee Way Motor Freight, Inc.	1983	170.0	(24.1)	(11.9)	1.0	114.2	-0-
	1982	187.9	(26.3)	(12.7)	1.1	114.0	-0-
Lynden Transport, Inc.	1983	58.9	3.9	2.2	1.4	93.2	11.21
	1982	68.3	6.7	5.7	1.4	90.1	29.87
Merchants Fast Motor Lines, Inc.	1983	90.3	4.1	1.6	0.9	95.4	19.60
	1982	98.2	9.8	4.8	0.9	90.0	54.58
Mid West Coast Transport, Inc.	1983	57.7	1.1	0.6	0.6	98.1	11.89
	1982	60.5	1.4	0.6	0.6	97.6	13.33
Midwestern Distribution, Inc.	1983	104.3	(2.5)	(2.1)	1.4	102.5	-0-
	1982	65.3	(4.1)	(2.5)	1.0	106.3	-0-
Milne Truck Lines, Inc.	1983	86.1	0.1	(0.4)	0.6	99.8	-0-
	1982	71.3	(3.5)	(2.2)	0.5	105.0	-0-
Mistletoe Express Service	1983	67.1	2.4	0.7	0.2	96.3	7.07
	1982	63.8	2.5	0.6	0.2	96.0	5.13
Murphy Motor Freight Lines, Inc.	1983	91.9	0.7	(0.2)	0.7	99.2	-0-
	1982	79.0	(1.2)	(1.3)	0.6	101.5	-0-
Northwest Transport Service	1983	67.5	8.7	4.7	0.3	87.0	33.12
	1982	62.9	7.0	4.4	0.3	88.8	42.76
Overland Express, Inc.	1983	64.1	4.0	1.9	0.9	93.8	45.42
	1982	50.7	3.2	1.4	0.7	93.6	52.64
Pacific Motor Trucking Co.	1983	124.7	(6.4)	(16.1)	1.1	105.2	-0-
	1982	131.8	(15.8)	(16.6)	1.3	112.0	-0-
Red Arrow Freight Lines, Inc.	1983	46.2	(0.3)	(0.5)	0.6	100.7	-0-
	1982	46.9	0.4	0.7	0.6	99.0	9.02
Riss International Corp.	1983	70.7	(0.8)	(0.7)	1.1	101.2	-0-
	1982	81.1	(1.4)	(0.3)	1.2	101.8	-0-

new environment. This occurred at a time when the economy—and freight tonnage—was quite depressed, and there wasn't much of a market for trucks or terminals. Consequently, there wasn't a high level of interest in liquidation.

"But now in the middle of recovery, when business is up nicely, we're seeing the second major round of the shakeout," Legg says. "Banks have become very aggressive in terms of enforcing loan covenants. We're also seeing the shipping public begin to gravitate much more aggressively away from those marginal companies and to those companies that are flourishing and can provide big discounts.

"I think we'll see the demise of most of the identified marginal carriers in 1984 and 1985," adds First Boston's Pierce. "At the same time, there is tremendous strength and vitality in the industry. We have strong companies coming to the public market again."

J.B. Hunt Transport, Builders Transport, Overland Express and Viking Freight System are a few of the trucking companies that have gone public. Many carriers are setting up satellite operations to be bridged by piggyback rail service. Several unionized carriers have established nonunion holding companies and are aggressively expanding their nonunion operations. And most recently, Norfolk Southern announced its purchase of North American Van Lines, subject to ICC approval. "These companies

continued

		OPERATING REVENUES (\$ millions)	NET CARRIER OPERATING INCOME ¹ (\$ millions)	NET INCOME ² (\$ millions)	REVENUE TONS HAULED ³ (millions)	OPERATING RATIO ⁴ (percent)	RETURN ON EQUITY LESS INTANGIBLE PROPERTY ⁵ (percent)
Santa Fe Trail Transport Co.	1983	48.1	(2.1)	1.1	0.2	104.5	11.14
	1982	54.6	0.1	0.4	0.2	99.8	4.52
Schneider Transport, Inc.	1983	168.8	5.8	3.1	3.3	96.5	52.71
	1982	160.0	1.2	1.0	3.0	99.2	31.75
Schwerman Trucking Company	1983	54.6	1.3	0.4	4.5	97.6	-0-
	1982	61.0	(0.2)	(2.3)	5.7	100.4	-0-
System 99	1983	67.6	2.9	1.3	0.4	95.6	-0-
	1982	60.1	(0.8)	(3.9)	0.3	101.4	-0-
Transcon Lines	1983	283.7	9.2	4.6	1.6	96.7	17.73
	1982	249.4	(7.3)	(7.1)	1.3	102.9	-0-
Tri-State Motor Transit Co.	1983	106.1	4.0	2.0	0.9	96.2	10.17
	1982	103.0	0.5	(0.7)	0.8	99.5	-0-
United Transports, Inc.	1983	67.9	2.3	1.3	1.3	96.5	28.57
	1982	54.2	(1.8)	(1.7)	1.2	103.5	-0-
United Van Lines, Inc.	1983	269.7	0.9	1.7	0.5	99.6	9.32
	1982	245.4	0.2	1.3	0.4	99.9	8.79
Willis Shaw Frozen Express, Inc.	1983	49.6	3.1	1.0	0.5	93.6	6.78
	1982	54.8	3.6	1.9	0.5	93.3	14.72
TOTAL WESTERN CARRIERS (45)	1983	5,700.9	164.8	68.6	57.6	97.1	7.52
	1982	5,551.9	32.3	(7.0)	58.8	99.4	-0-

¹Net Carrier Operating Income - difference between carrier operating revenues and expenses.

²Net Income - Includes fixed charges, non-operating income, income taxes, unusual or infrequent items, earnings attributable to discontinued segments, extraordinary items and cumulative effect of changes in accounting principles, but before extraordinary charges for write-down of operating rights and extraordinary credits for the tax effect of such write-downs.

³Revenue tons hauled reflect common and contract carrier service.

⁴Operating Ratio - Ratio of operating expenses to operating revenues.

⁵Return on Equity - Ratio of net income before extraordinary charges for write-down of operating rights to shareholders' equity less intangible property at end of previous calendar year. The symbol -0- indicates a deficit in net income and/or shareholders' equity.

⁶The 100 carriers listed are generally the largest Class I U.S. motor carriers of property, based upon revenues, with the following exceptions. Contract carriers are not included because the data filed by these carriers were substantially reduced in scope, in accordance with the Commission's revised reporting regulations, effective January 1, 1980. Also, the two largest motor carriers in terms of revenue generated—United Parcel Service and United Parcel Service, Inc. (New York)—are not included in this report because their data had not been received when this report was prepared. Those carriers were replaced by carriers ranking just below the 100 largest in size to arrive at a listing of 100 carriers.

⁷Effective July 11, 1983, Ryder Truck Lines, Inc. and Pacific Intermountain Express were merged to become Ryder/PIE Nationwide, Inc. Data shown above for Ryder/PIE nationwide for periods prior to July 1, 1983, represent the combined data of the two predecessor carriers.

⁸Effective January 20, 1983, Georgia Highway Express, Inc. changed its name to Transus, Inc.

⁹Data shown for East Texas Motor Freight Lines, Inc. reflect operations from January 1, 1982 to September 30, 1982. Since this carrier merged into the ABF Freight System, Inc. in September 1982, the results of operations over its system from October 1, 1982 to December 31, 1983 are included in the data shown above for ABF Freight System, Inc. Although data for East Texas are shown separately, ABF and East Texas are considered one carrier for this report.



FINANCIAL

see a fascinating opportunity in a freer environment," Pierce says.

The Good Times Stop Rolling

Between purchases, consolidations and rising tonnage, changes are in store for shippers who have enjoyed a seemingly endless tidal wave of good fortune propelled by the Motor Carrier Act of 1980. From the shipper perspective, one hardly could imagine a more ideal climate than to have carriers literally begging for your freight and willing to meet almost any competitor's price and service offer.

"The shipper has had the best of all worlds in the last four years," says Legg. "Provided it has decent freight, the shipper hasn't had to make a price-service trade-off. Instead, it's been enjoying top quality service from good name carriers at top-line discounts.

Legg attributes this condition to the industry's overcapacity, citing the following example:

"Let's say an LTL carrier has a fixed capacity of 100 units per day," Legg says. "If it's moving 50 units a day, its profit margin on the incremental revenue unit is probably 60 percent. So it's willing to go out and aggressively discount to build up its market share.

"But as it moves upwards to about 85 units a day, it begins to experience bottlenecks in its operation. So the profit on the next revenue unit of about 85 may not be 60 percent, but 20 percent. And if the carrier makes it to 90 units a day, it may need to add fixed costs to handle the additional freight, which eliminates the profit on that incremental unit of freight. Instead of making more money, the additional unit ends up costing capital."

Applying this theory to real-world operations, Legg points to a carrier that managed to keep afloat during the lean tonnage months, and is now moving more and more freight. "As this carrier gets closer to its saturation point," Legg notes, "it will become less willing to give large discounts and probably be far more selective in accepting freight. It probably won't want to haul bird cages west out of Albuquerque, particularly if the shipper insists on a

50 percent discount.

"So shippers, who have thoroughly enjoyed this wonderful life until now, are finally going to have to decide between service and price."

Saturation Point

This is beginning to happen already, as several of the well-known, well-financed and well-managed carriers who recorded blazing profits in 1983 are nearing the saturation point. "The aggressive carriers that have won the market share battle are beginning to run short of capacity," Legg notes.

Robert T. Beard, economist for the Regular Common Carrier Conference of the American Trucking Assns., reports that the surplus ca-

The Getting is Good

And rest assured—truckers can't wait to get back in the driver's seat.

"I think it's going to happen this year, unless the economy takes a nosedive," one trucking industry analyst believes. "When you look at the number of trucks and trailers manufactured since 1979, and start projecting the number of tons of freight that are going to be available, one has to conclude that shippers are going to have a problem with capacity, quite possibly late this summer. And when that happens, the shipper isn't even going to be able to make a choice between rates and service—it's going to be the truckers' turn to call the shots."

The clear inference is that if this problem develops, shippers can ex-

**"Slowly, by dust and by bust,
the industry's capacity
is shrinking."**

capacity which had been abundant in the industry for the past three years is now being dissipated, as firms finally leave the industry in spite of the multi-employer pension plan withdrawal liabilities that had stymied them in the past. In addition, aged equipment has not been replaced with new capacity, and demand for equipment has increased, spurred by a rebound in the durable goods sector of the economy.

"Preliminary data of a study that is currently underway indicates that about 44 percent of the over-the-road tractors have reached an age of over five years, which has long been considered the economic lifespan of tractors by the Internal Revenue Service, and over 35 percent of the existing capacity in trailers is over its economic life of 7 years," Beard notes. "Thus, slowly by dust and by bust, the capacity of the industry is shrinking. Barring another recession, there will have to be upward pressure on rates."

pect about as much sympathy and compassion from truckers as truckers have received from shippers since 1980. In other words, truckers, in all likelihood, will be delighted to stick it to them.

"The carriers have been very good students while the shoe has been on the buyer's foot, and they've taken their lumps," the analyst says. "I think most carriers have learned their lessons well."

So what's a shipper to do? "I'd continue to cull my carriers down to those that have the financial stability I want," Legg suggests, "and start thinking seriously about the price-service tradeoffs I'm now going to have to face."

Shipping managers will also have to educate their superiors, who have been spoiled in the past few years. "I wouldn't want my boss to be upset if I couldn't get a 50 percent discount," Legg says. "I'd make sure it was understood now that the gravy train can't last." ★

DISTRIBUTION'S FORECAST



GENERAL ECONOMIC INDICATORS

	2nd QTR. '84	3rd QTR. FORECAST
Real GNP (trillions)	\$3.6132	\$3.6884
Retail Car Sales (Mil. units, annual rate)	10.6	10.6
Housing Starts (Units, annual rate)	1,896,800	1,840,400
Prime Rate (%)	12.0	12.1
Producer Price Index (quarterly change)	(-3.0%)	(-3.1%)

Real GNP will grow at a rate of 4.1 percent in the third quarter, and moderate in the latter part of the year. Retail car sales will hold at a steady pace, with annual sales expected to exceed 10 million units. Housing starts are much higher than 1983 levels, and will moderate in the third and fourth quarters because of the expected rise in home mortgage rates. The expected increase in the cost of money is reflected in the gradual rise in the prime rate to 12.5 percent in the fourth quarter. This increase will slow economic growth and reduce housing starts and auto sales. Inflation, in contrast, should moderate throughout the year as shown by the decline in the producer price index by approximately 3 percent each quarter.

DIESEL FUEL PRICES

	MARCH '84	JUNE '84	3rd QTR. FORECAST
Full-Serve	129.4	131.1	132.2
Self-Serve	117.1	119.1	120.0

Source: American Trucking Associations

Diesel fuel prices are expected to show a moderate increase in the months ahead. This is partly because of somewhat higher costs involved in the refining of diesel fuel, and also because of the increase in demand. The rise will impact on truck transportation, which is the single largest consuming segment of diesel fuel. The price per gallon should increase from 130.0 in May to more than 132.0 a gallon in the third quarter.

DISTRIBUTION INDEX Quarterly Shipper Forecast

	CURRENT QUARTER	3rd QTR. FORECAST	NET CHANGE
Truck Shipments	137.4	139.5	+2.1
Rail Shipments	122.5	124.7	+2.2
Air Shipments	126.1	129.8	+3.7
Water Shipments	114.7	116.5	+1.8
Warehouse Space Utilization	131.5	135.4	+3.9
Inventory Valuation	113.2	115.6	+2.4

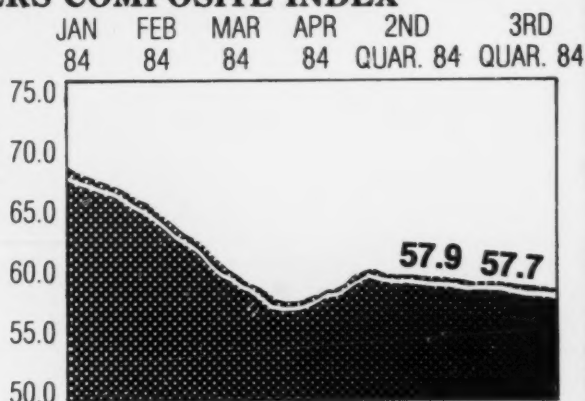
The shipper activity as reflected in DISTRIBUTION's Quarterly Index shows continued increases in all modal categories. Air shipments will show the strongest growth, rising by more than 3.7 points, consistent with the rise in inventories is the increase in the amount of warehouse space utilization, from 131.5 in the current quarter to the 135.4 level through the third period. Inventory valuation will also rise, but only by a modest amount, reflecting the continued slow growth rate of inflation in 1984. As one shipper stated, "1984 is one of the few years in my company's history that we feel confident about the future. Because of this, we are making long-term investment decisions now which we have postponed for the last five years."

Our statistical summary for the second quarter reflects continued upward growth of the economy, and that means busier times ahead for shippers—and perhaps more expensive times as well.

By Dr. Richard Lancioni, Contributing Editor

PURCHASING MANAGERS COMPOSITE INDEX

The composite index of purchasing activity reflects a decline in the early part of the year, but a mild increase in the second and third quarters. This change is in part the result of fluctuations in interest rates and the higher inventory building that was done in the first quarter by manufacturers to meet rising demand. As inventories begin to be drawn down, purchasing activity will increase in the third and fourth quarters to again build inventories in anticipation of the summer and fall buying periods.



TRANSPORTATION TONNAGE INDEXES (1977=100.0)

A key indicator of economic performance is the number of tons hauled by rail, truck and barge transportation. Rail tonnage, as reflected in the index, will reach the 96.328 level in the third quarter, and rise to 95.804 in the fourth period. Truck tonnage will also rise from nearly 149.903 in the second quarter to the 153.472 level in the latter part of the year.

	1st QTR. '84	2nd QTR. '84	3rd QTR. FORECAST
Rail	89.981	96.328	95.804
Truck	145.626	149.903	153.472
Barge	(N/A)	(N/A)	(N/A)

Source: Data Resources Inc.

TRANSPORTATION COST INDEXES (1977=100.0)

The cost of transportation will rise moderately in the third and fourth quarters. Rail costs as reflected in their overall rate structure will increase from 183.0 in the second quarter to the forecasted 186.0 level by the end of the third period. Truck costs will rise from 167.5 in the second period to 170.3 in the third. Barge costs will also increase, from the 179.6 level in the second quarter to the 181.7 level in the third.

	1st QTR. '84	2nd QTR. '84	3rd QTR. FORECAST
Rail	182.2	183.0	186.0
Truck	165.1	167.5	170.3
Barge	177.4	179.6	181.7

Source: Data Resources Inc.

Chilton's

AUGUST 1984

DISTRIBUTION

TRANSPORTATION DECISION MAKERS

10-1
MS SUSAN GARNER
CONGRESSIONAL INFORMATION SERVICES
4520 EAST-WEST HIGHWAY
BETHESDA MD 20814



ROAD TAX
REVOLT

READING BETWEEN THE RAILROADS' NUMBERS
MAIL-ORDER MANIA HITS THE ROAD
DON'T GET BURNED BY THE BILL OF LADING

COVER STORY**12 ROAD TAX REVOLT**

It was long ago concluded that taxes were one of two things you could count on, but a horde of state and local tax measures in place of a national highway taxation policy has left private truckers with more taxes than they can count.

FEATURES**24 DISTRIBUTION LIBRARY**

More pungent reviews of logistic literature, to help you separate the best-sellers from the can't-give-'em-aways.

28 MAIL-ORDER MANIA

Is it really as easy as working women filling the till and UPS' trucks filling the road?

36 BEFORE THE FALL...

It's time to plan some more personnel movements using our handy calendar format.

40 RATE YOUR TRAFFIC MANAGER—BY THE NUMBERS

Seven simple steps to help distribution managers draw an image of traffic managers as reflected by the bottom line.

43 DISTRIBUTION CROSSWORD

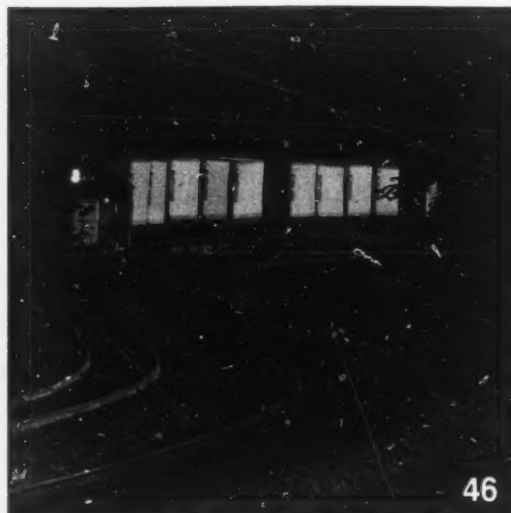
Another puzzle with a distribution theme to keep you busy when nothing else is moving.

46 RAIL FINANCIAL PROFILE: HAULING A HEAVY LOAD

Along with increased traffic, the rails are hauling around an increasing amount of shipper suspicion.

52 STAY TRUE TO THE FORM! (Part Two)

The debate heats up over how much carriers can use the bill of lading to restrict loss-and-damage responsibility.

**COLUMNS****4 EDITORIAL By Thomas A. Foster**

The railroads are on a roll

7 DIALOGUE

Reasons not to do the trucking yourself

57 HAZARDOUS MATERIALS By Bob Jordan

The highs and lows of compliance

59 MANAGEMENT By Nancy Entwisle

Dealing with nuts and bolts isn't the tough part

62 INTERNATIONAL By Roger Schreffler

Quotas, continued

65 RAIL By Frank Shaffer

Mergers could join more shippers than railroads

68 TRUCKING By Kurt Hoffman

Carriers drop 'forgive our debtors' approach

74 WASHINGTON By Stan Chapman

A way to stuff the ICC's 'empty envelope'?

72 ANSWERS & AUDITS

A lack of sensitivity

74 DISTRIBUTION & WAREHOUSING By Denis Davis

Wercing with Kanban

76 SHIPPER/CARRIER By Joseph V. Barks

Carriers contend there's plenty of beef

77 SMALL SHIPMENTS By Joseph V. Barks

Can small shippers have it both ways.

80 LAW By Colin Barrett

Truck rates on short notice

82 COMPUTER By Nancy Entwisle

Where, oh where, has my air freight gone?

DEPARTMENTS**8 EDITORIAL STAFF****84 LITERATURE****87 GUIDE TO PUBLIC WAREHOUSES****89 READERS SERVICE CARD****94 EQUIPMENT****94 CLASSIFIEDS****95 ADVERTISERS INDEX****95 BUSINESS STAFF****96 LAST PICKUP****NEXT ISSUE**

For-hire trucking



DISTRIBUTION, ISSN 0273-6721, owned by Chilton Co., is published monthly at Chilton Way, Radnor, PA 19089, (215) 964-4000. Chilton Co. is a division of American Broadcasting Companies, Inc., New York, N.Y. Second Class Postage Paid at Wayne, PA 19087 and additional mailing offices. ©CHILTON COMPANY 1984. Subscription rate: U.S. and possessions, \$25 per year. Canadian, \$30. Foreign \$50. Single issue \$2.00 except Distribution Guide issue—\$20 per copy. Postmaster: Send form 3579 to DISTRIBUTION, P.O. Box 1438, Riverton, NJ 08077. Permission to photocopy for internal use or the internal use of specific clients is granted by Chilton Company for libraries and other users registered with the Copyright Clearance Center (CCC), provided that the base fee of \$1.00 per copy of the article, plus 25¢ per page is paid directly to the CCC, 21 Congress Street, Salem, MA 01970. Special requests should be addressed to the Editor-in-Chief. (0273-6721/84 \$1.00 + 25¢.)

DIALOGUE

In April, we asked for your opinions on the benefits and future of private carriage. What you told us showed that while there is a lot of room for disagreement over how private carriage benefits the shipper, the drawbacks that come hand-in-glove with the benefits are easily identified and pretty much the same for everybody. Here's what you had to say about when private carriage becomes a bad idea:

"When competitively priced common carriers provide dependable service, and no backhaul opportunities exist."—**J.A. Chambers, traffic manager, Standard Container Co., Homerville, Ga.**

"When the necessary equipment and service is readily available at less cost from independent or common carriers."—**Charles Welcome, traffic manager, EHV-Weidmann Industries, Inc., St. Johnsbury, Vt.**

"When distance exceeds 125 miles, adequate competition exists, and freight has a low classification and a high damage factor."—**Unsigned**

"When a private fleet's overuse leads to the skimming of the most desirable traffic (i.e., round-trips, continuous moves) at the expense of for-hire trucking. This in turn increases overall for-hire costs."—**Ed Brandt, transportation manager, J.R. Simplot Co., Boise, Id.**

"When service to the customer suffers regardless of how efficient the private carrier seems to be. Service first; cost/profitability of service last! However, the fleet must break even."—**Dennis Webber, traffic manager, Interstate Brick Co., W. Jordan, Vt.**

"When too much administrative time must be spent in litigation with a union."—**James C. Nichols, traffic manager, M.K.S. Co., Inc., Elizabethton, Tenn.**

"When management is not willing to allocate sufficient resources to provide private carriage activity reporting and cost information systems. Both are essential for comparisons to for-hire operations."—**H. Dennis Cohen, manager—field traffic operations, Travenol Laboratories, Deerfield, Ill.**

"We do not use private carriage for long-haul operations, and will not as long as the truckload operators maintain their low mileage rates."—**H.M. Karel, director of distribution, Cleo Wrap Corp., Memphis.**

"Corporations enter into private carriage without experienced and qualified transportation personnel and support from top management."—**F.J. Alexander, vice president transportation, Trinity Industries, Inc., Dallas.**

"When you have limited inbound freight."—**Unsigned.**

"When the cost of moving freight becomes cheaper by contract carrier and you can also maintain service standards."—**Richard Bilotti, traffic coordinator, National Standard, Niles, Mich.**

continued

QUESTION OF THE MONTH

The economic recovery continues to explode, and public warehouseers are, like the rest of us, enjoying the the blast. The American Warehousemen's Association says its members are reporting the highest occupancy levels since before 1980. In fact, 42 percent said they were enjoying occupancy levels of 90 percent or better, and over half of its members responding to a questionnaire predicted the upward trend would continue. Obviously, shippers who choose public warehousing as part of their pipeline are back. What we would like to know is why you use the public warehouse(s) that you do.

For example, if you use a local public warehouse, how large a role did personalized service play and, conversely, are you afraid of being lost in the shuffle with a national chain? Have you found a public warehouse that specializes in your product? How hard are public warehouseers scrambling for your business? Is your primary interest in public warehousing storage? Or are you also taking advantage of the value-added services that many public warehouseers now provide?

Tell us about the pluses and minuses you've experienced on the card below, and in an industry wrap up in December, we'll spread the good news and the bad about an industry that says it's ready to break new ground in service.

DIALOGUE

● For my company, public warehousing is a realistic option: ☐ Yes ☐ No ☐ Don't know

● My company uses public warehousing to: ☐ meet fluctuating demand ☐ cover new markets ☐ avoid capital investment ☐ handle overflow ☐ other(specify)

● In addition to storage, I use the following services: ☐ pick and pack ☐ assembly/distribution ☐ labeling ☐ mark prices ☐ transportation broker ☐ other(specify)

● Has a public warehouse ever spelled out to you the value-added services it provides and how it can help you? ☐ Yes ☐ No

● I understand contract warehousing: ☐ Yes ☐ No

● Is there a difference between a local public warehouse and one that is part of a national chain? ☐ Yes ☐ No ☐ Don't know

● In general, I don't know much about public warehousing: ☐ True ☐ False

I use a public warehouse to do the following things:

OPTIONAL:

NAME (print) _____ TITLE _____
COMPANY _____ PHONE _____
ADDRESS _____
CITY _____ STATE _____ ZIP _____

EDITORIAL STAFF

THOMAS A. FOSTER
Editor-in-Chief
(215) 964-4388

JOSEPH V. BARKS
Editor
(215) 964-4379

DENIS J. DAVIS
Senior Associate Editor
(215) 964-4385

NANCY ENTWISLE
Associate Editor
(215) 964-4390

BRUCE HEYDT
Associate Editor
(215) 964-4381

BARBARA MACAK
Production Coordinator
(215) 964-4387

EMILY BARR
Production Manager
(215) 964-4384

CONTRIBUTORS

COLIN BARRETT
(703) 860-8521

JOHN BETZ
(303) 422-4959

STAN CHAPMAN
(703) 536-6561

KURT C. HOFFMAN
(804) 282-6213

R. LYNN HURLBERT
(602) 231-6405

JESSE C. JESSEN
(215) 444-5925

BOB JORDAN
(415) 349-7600

DR. RICHARD
LANCIONI
(215) 322-5123

JEAN STRICKLAND
MURPHY
(202) 628-0934

ROGER SCHREFFLER
(215) 964-4388

FRANK E. SHAFFER
(312) 934-6919

EDITORIAL ADVISORY BOARD

DR. JOSEPH L. CAVINATO
Associate Professor of Business Logistics
The Pennsylvania State University

DR. BERNARD J. LA LONDE
James J. Riley Professor of Marketing & Logistics,
Ohio State University

CHARLES E. MARR
Corporate Traffic Manager, Hewlett Packard

J. ROBERT MORTON
Vice President, Corporate Transportation &
Distribution, Combustion Engineering

STANLEY ROZYCKI
Operating Vice President/Transportation Logistics,
Federated Department Stores, Inc.

ROBERT VIDRICK
Director of Corporate Transportation,
Robertshaw Controls Co.

"Any of the basic criteria (economics, service or equipment) has vanished. We are evaluating our fleet and past justifications are now overcome by new options. This makes things difficult, but exciting."—**Lee L. Walters, corporate traffic manager, Onan Corp., Minneapolis.**

"When the common carriers rates are so competitive that the problems which accompany a private fleet make this mode unnecessary—and generally, a carrier that one uses regularly can put in place favorable rates, making them quasi-private anyway."—**Lee Ross Heidhues, traffic manager, CPC Int'l Best Foods, San Francisco.**

"When the empty miles wipe out your savings over commercial costs."—**Unsigned.**

"When there is no significant cost differential from common carriage. The rates available on a negotiated contract basis via for-hire carriage make the 'ego value' of many private fleets unjustified."—**James J. Paule, traffic manager, Spangler Candy Co., Bryan, Oh.**

"When you're in the business of selling high-technology products, not the trucking business."—**Gene A. McDowell, corporate traffic manager, Scientific Atlanta, Atlanta.**

"At the present time it appears less desirable an option. The differences are narrow at best and will vary among shippers. Private carriage is just another mode."—**A.S. Daviau, director of corporate transportation, Bristol Myers Co., New York.**

"When the rate structure drops below \$1.00/mile."—**Bob Wromko, manager, fleet operation, BFGoodrich Chemical Group, Cleveland.**

ONLY IF THE PRICE IS RIGHT

Deregulation has made private carriage more attractive	29%
less attractive	52%
A healthy economy will make private carriage more attractive . . .	54%
The most important benefit of private carriage is:	
quality of service	33%
customer relations	25%
cost of service	25%
The biggest difficulty in operating a private fleet is:	
large initial investment	44%
union/labor negotiations	27%
The greatest difference between private and for-hire carriage is in:	
dependability	48%
cost	29%
Private carriers planning to take advantage of trip leasing	48%



NO POSTAGE
NECESSARY
IF MAILED
IN THE
UNITED STATES

BUSINESS REPLY CARD

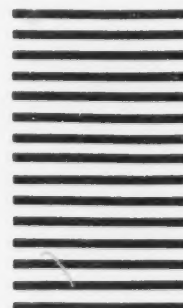
FIRST CLASS PERMIT NO 39 WAYNE PA

POSTAGE WILL BE PAID BY ADDRESSEE

DISTRIBUTION

P.O. Box 2105

Radnor, Pennsylvania 19089



A stylized, high-contrast black and white illustration of a locomotive. The locomotive is facing forward, with its front end at the top of the page. The front features two large circular headlights and a central rectangular grille. The number '3208' is printed on both sides of the front. The body of the locomotive is dark, with white outlines for the windows and doors. The wheels are represented by large, solid black shapes at the bottom. The overall design is graphic and industrial.

3208

3208

**1983 RAIL
FINANCIAL PROFILE**

**HAULING A
HEAVY LOAD**

Along with increased traffic, the rails
are hauling around an increasing amount of shipper
suspicion and resentment that could
turn back the regulatory clock.

By Thomas A. Foster, Editor-in-Chief

The nation's railroads are finally having their day. They are hauling more freight and earning more money than at any time in their history.

Net rail operating revenues and return on investment in 1983 were 50 percent higher than those for 1982. The results for the first quarter of this year are even better. Ordinary income for the first quarter of 1984 is \$593,000, up 250 percent over the same figure for last year. Return on investment for the quarter is 4.3 percent, or nearly double the rate for the same quarter in 1983.

These upbeat trends have spelled joy for the railroads, but apparently not to shippers who don't seem to like their carriers to be too prosperous. For the last six months, numerous shippers and shipper groups have been pushing for legislation to significantly cut back the deregulatory freedoms that have allowed this new prosperity.

Perhaps because of strong shipper efforts to reimpose more economic regulation on the railroads, Wall Street has become worried about future earnings for the rail carriers, and their stock prices have fallen 30 to 50 percent from last year's highs.

But shippers shouldn't worry about the railroads, according to leading financial analysts who follow this industry. Railroads will continue to prosper, but not at the expense of shippers.

"The Staggers Act has given the railroads the tools to improve their operating margins," reasons Mary DeSapio, first vice president for Lehman Bros. in New York. "The railroads have gained the freedom to cut operating costs, abandon lines and price services competitively. Rail prosperity has not really come from increased traffic or rate increases. It has come from better management."

These sentiments are shared by another leading rail analyst, Robert Long of the investment banking firm, First Boston Corp.

"Railroads have come back from the brink of financial disaster for four reasons," says Long. "First and most important is deregulation, which has allowed much more ag-

continued

CLASS I FREIGHT RAILROADS SELECTED EARNINGS DATA. 1983

		OPERATING REVENUES (\$ millions)	NET OPERATING INCOME ¹ (\$ millions)	INCOME BEFORE EXTRAORDINARY ITEMS ² (\$ millions)	NET INCOME ³ (\$ millions)	REVENUE TON-MILES (millions)	RETURN ON INVESTMENT ⁴ (percent)
DISTRICT, CARRIER & YEAR							
Eastern District	1983	\$7,163.7	\$276.5	\$339.7	\$343.6	175,227	2.87
	1982	7,958.7	91.7	352.9	352.9	178,300	.95
Southern District	1983	5,053.6	300.3	268.4	258.4	146,251	4.16
	1982	4,987.0	233.4	357.9	357.9	142,805	3.21
Western District	1983	14,508.3	719.5	608.7	641.6	505,278	3.94
	1982	14,147.6	480.1	482.6	482.6	479,568	2.67
TOTAL ALL CARRIERS	1983	26,725.7	1,296.4	1,217.0	1,253.7	826,756	3.69
	1982	27,093.4	805.3	1,193.5	1,193.5	800,674	2.30
INDIVIDUAL RAILROAD DATA							
Eastern District							
Baltimore & Ohio	1983	918.5	1.2	0.1	0.1	22,129	.09
	1982	899.9	4.8	2.4	2.4	20,095	.35
Bessemer & Lake Erie	1983	64.1	3.8	4.2	4.2	1,279	2.32
	1982	82.0	(0.2)	3.5	3.5	1,620	-0-
Boston & Maine	1983	118.2	(1.9)	(1.0)	(1.0)	2,439	-0-
	1982	120.0	(5.5)	(2.1)	(2.1)	2,424	-0-
Chesapeake & Ohio	1983	949.2	49.4	48.9	48.9	28,012	4.11
	1982	1,041.1	63.4	118.3	118.3	28,866	5.41
Consolidated Rail Corp. ⁵	1983	3,025.3	127.6	153.7	157.6	70,285	4.10
	1982	3,440.4	(124.0)	2.4	2.4	67,999	-0-
Delaware & Hudson	1983	108.3	(5.8)	(16.3)	(16.3)	3,570	-0-
	1982	110.5	(10.9)	(20.2)	(20.2)	3,247	-0-
Detroit, Toledo & Ironton	1983	68.9	(5.1)	(8.4)	(8.4)	1,365	-0-
	1982	68.2	(14.5)	(16.4)	(16.4)	1,284	-0-
Elgin, Joliet & Eastern	1983	90.8	6.1	8.1	8.1	463	4.22
	1982	89.1	3.9	8.0	8.0	465	2.67
Grand Trunk Western	1983	227.2	(8.7)	(13.5)	(13.5)	3,633	-0-
	1982	235.7	(7.9)	(11.4)	(11.4)	3,349	-0-
Norfolk & Western	1983	1,526.7	124.0	185.7	185.7	40,488	5.33
	1982	1,737.2	185.2	273.4	273.4	46,192	8.12
Pittsburgh & Lake Erie	1983	43.2	(12.5)	(23.0)	(23.0)	1,085	-0-
	1982	47.2	(11.6)	(16.6)	(16.6)	1,127	-0-
Western Maryland ⁶	1983	22.8	(1.5)	1.2	1.2	474	-
	1982	86.8	9.2	11.5	11.5	1,626	5.74
Southern District							
Florida East Coast	1983	104.7	(8.5)	39.5	39.5	2,725	-0-
	1982	91.7	4.8	12.5	12.5	2,450	2.67
Illinois Central Gulf ⁷	1983	874.1	17.2	(7.3)	(7.3)	24,351	1.43
	1982	895.8	(29.1)	(24.8)	(24.8)	24,104	-0-
Seaboard System ⁸	1983	2,471.9	133.6	98.0	98.0	73,927	4.17
	1982	2,395.8	107.3	226.6	226.6	69,789	3.37
Southern Railway	1983	1,602.7	158.0	138.2	138.2	45,247	6.02
	1982	1,603.5	150.4	143.5	143.5	46,460	5.58
Western District							
Atchafalaya, Topeka & Santa Fe	1983	2,091.1	92.7	82.5	82.5	67,747	3.32
	1982	2,077.6	74.9	56.2	56.2	68,291	2.65
Burlington Northern	1983	4,019.0	343.7	324.5	324.5	172,344	8.22
	1982	3,767.1	183.1	174.3	174.3	157,714	4.43
Chicago & North Western	1983	861.5	30.6	8.2	9.4	23,692	5.65
	1982	807.8	(16.1)	(27.4)	(27.4)	22,866	-0-
Chicago, Milwaukee, St. Paul & Pacific	1983	362.9	(5.7)	(18.7)	5.2	10,685	-0-
	1982	363.5	(38.8)	(21.5)	(21.5)	9,411	-0-
Denver & Rio Grande Western	1983	306.4	12.3	10.0	17.6	12,111	3.02
	1982	292.4	17.8	17.5	17.5	9,841	4.70
Duluth, Missabe & Iron Range	1983	78.1	2.7	9.0	9.0	1,405	2.24
	1982	54.3	(8.7)	(4.5)	(4.5)	1,023	-0-
Kansas City Southern	1983	306.0	28.6	20.9	20.9	11,280	6.33
	1982	307.5	28.1	16.0	16.0	10,704	7.25

Chart continued on page 50

FINANCIAL

gressive marketing and has given the railroads the chance to recapture traffic from the trucks.

"The second reason for the financial revival of the rails is headcount reduction," says Long. "Under regulation, there was no incentive for a railroad to reduce unnecessary people in management and labor jobs. It was easier to pass the costs along. Now headcount has been reduced dramatically for just about all the carriers, and the savings have gone right to the bottom line.

"Third, the capital spending that has been going on in the rail industry in the last couple years is astounding. The rail system in this country is in the best shape it has ever been. Service and reliability have improved dramatically. Finally, rail management has found major operating efficiencies by abandoning unnecessary lines, reducing redundant equipment, closing terminals, and so on," says Long.

Much of the operating efficiencies the railroads have gained can probably be attributed to the many mergers the industry is experiencing. These mergers have also been a cause of some anxiety among shippers who fear a more concentrated rail industry will result in monopoly power, higher rates and less concern for service. So far, these fears seem unfounded.

"The rail mergers so far have been good because they have been done for the right reasons," says Mary DeSapio. "The mergers have increased the efficiency and thus the earning power of the railroads. The obvious benefits are better use of equipment, people and capital. There have also been marketing benefits. The larger railroads can transcend regional boundaries and offer better and lower cost service."

Needless to say, some of the new prosperity of the rails has come from continued rate increases, and this is the trend that bothers most shippers. Overall rates this year have climbed by about four percent, and they are expected to increase another percent or two by the end of the year. For certain traffic, however, the rates have climbed much higher and much faster.

"Rates have gone up a lot in the last few years, and this is the reason I think there is so much talk about reregulation," says Bob Long. "Coal freight rates have gone from being 22 percent of the delivered cost to over 30 percent just in the last five to seven years. Coal shippers and utilities look at this climb with horror. What they don't realize is that over the decades, 30 percent has been about the industry average for coal transportation. It was just in the early and mid 1970s that the percentage dropped

Net Income

Most in the black:

BN	324.5M
N&W	185.7
CR	157.6
Southern	138.2
UP	118.7

Deepest in the red:

SP	-43.4M
P&LE	-23.1
D&H	-16.3
GTW	-13.5
WP	-10.3

Largest pct. increases from '82

Conrail	+6,391.2
Fla. E. Coast	+214.1
BN	+86.2
Santa Fe	+46.8
KCS	+30.5
B&LE	+20.7
UP	+13.1
EJ&E	+0.9
D&RG	+0.4

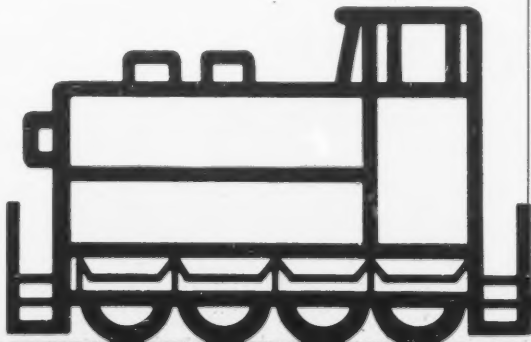
Largest pct. decreases from '82

B&O	-92.7
C&O	-58.6
Seaboard	-56.7
MP	-38.3
St. L. SW	-34.5
N&W	-32.1
Soo	-15.4
Southern	-3.7
MKT	-2.2

Income Rankings

RR	'83 RANK	'82 RANK	NET CHANGE
BN	1	3	+2
N&W	2	1	-1
CR	3	20	+17
Southern	4	4	NC
UP	5	7	+2
Seaboard	6	2	-4
Santa Fe	7	8	+1
MP	8	6	-2
C&O	9	5	-4
Fla. E. Coast	10	13	+3
St. L. SW	11	9	-2
KCS	12	11	-1
D&RG	13	10	-3
Soo	14	12	-2
C&NW	15	30	+15
Duluth	16	23	+7
EJ&E	17	16	-1
Milwaukee Road	18	28	+10
MKT	19	17	-2
B&LE	20	18	-2
W. Md.	21	14	-7
B&O	22	19	-3
B&M	23	21	-2
ICG	24	29	+5
DT&I	25	25	NC
WP	26	22	-4
GTW	27	24	-3
D&H	28	27	-1
P&LE	29	26	-3
SP	30	15	-15

NC=No Change



FINANCIAL

about 20 percent, and that was caused by regulation, not market forces.

"Still, it's hard to tell a shipper that his rates really aren't too high. The railroads are going to have to be very sensitive to public opinion when it comes to rates," says Long.

Another area of concern for shippers has been the trend toward diversification among the railroads into nonrail businesses. The general fear is that profits earned from rail operations are not being reinvested in rail projects but are being used to fund new business ventures. According to industry analysts, these apprehensions of disinvestment in rail operations are largely unfounded.

First Boston's Bob Long says that CSX's purchase of Texas Gas is a perfect example of the kind of strategic financial strategies we can expect from the large, diversified rail companies.

"CSX rail operations make most of their money in the warmer months of the year," says Long. "So for six or seven months the railroad is a net contributor to profit, but for the other months it is a net user of funds. The income

streams for Texas Gas are just the opposite. In the winter months, Texas Gas produces a big cash flow. For CSX, it's almost like having a CD in the bank. When you combine the two operations you reduce the working capital needed for the whole corporation. You give stability to the earnings of the company, which gives greater confidence to the capital markets because earnings are steady. This is good for the shipper because it lowers the cost of capital to the railroads and thus keeps the need for rate increases down. Diversifying in this way really helps the both company and the shipper."

Diversification by railroads into other forms of transportation is completely different strategy, according to Mary DeSapio. It is a competitive marketing strategy, but it also is good for the company and the shipper.

"What we are really talking about is the transition of the railroads into total transportation companies," says the Lehman Bros. vice president. "This trend is really just beginning. We've already seen railroads acquiring barge lines, van lines and other transportation ser-

vices, and we're going to see more of this. A multimodal capability gives the railroad more ways to attract new business. It gives shippers more opportunities to have customized service."

Thus, according to industry analysts, shippers have no reason to complain about the prosperity brought to the railroads by the Staggers Act. In fact, Long predicts any retrenchment in deregulation could cause a very unpleasant reaction by rail management.

"If shippers are successful in causing a reversal in rail deregulation in the next few years, they'll probably regret it. I think it is quite possible adverse regulatory legislation could cause a number of rail holding companies to get out of the railroad business," warns Long. "Right now you wouldn't think it was possible, but I believe it is. The holding companies would spin off the rail operations to their shareholders just like RJR Industries spun off Sea-Land. The railroads would be on their own. They wouldn't have the financial backing of the parent anymore. They would live or die on their own. In an ad-

continued

Return on Net Investment Rankings

RR	'83 RANK	'82 RANK	NET CHANGE
BN	1	10	+9
KCS	2	2	NC
Southern	3	6	+3
MKT	4	3	-1
C&NW	5	NR	—
N&W	6	1	-5
MP	7	4	-3
UP	8	9	+1
EJ&E	9	14	+5
Seaboard	10	12	+2
C&O	11	7	-4
Conrail	12	NR	—
Santa Fe	13	16	-13
D&RG	14	8	-6
Soo	15	13	-2
B&LE	16	NR	—
Duluth	17	NR	—
ICG	18	NR	—
St. L. SW	19	11	+8
B&O	20	17	-3

NR=Not Ranked
NC=No Change

Return on Net Investment

Largest increases from '82

C&NW	+5.65
BN	+4.39
Conrail	+4.10
B&LE	+2.32
Duluth	+2.24
EJ&E	+1.55
ICG	+1.43
Seaboard	+0.80
Santa Fe	+0.67
Southern	+0.44
UP	+0.20

Largest decreases from '82

St. L. SW	-3.24
N&W	-2.79
Fla. E. Coast	-2.67
D&RG	-1.68
MP	-1.46
MKT	-1.33
C&O	-1.30
KCS	-0.92
B&O	-0.26
Soo	-0.07

FINANCIAL

verse regulatory climate, they would not all survive. This is the risk today if shippers push too hard for retrenchment on Staggers."

Indeed, as good as the rail profitability picture has been, many railroads are saying that remaining regulation is stifling the economic growth of the industry.

The rail industry frequently complains about the high cost of capital and the relatively low return on investment. The most recent cost of capital figure determined by the ICC was around 14 percent. The average ROI for the industry was only 3.69 percent in 1983, and it has been much less than that for most of the past decade.

The ROI figure is a little deceiving, according to industry analyst Long. "There are two problems in calculating rail return on investment," explains Bob Long. "First, the equity base of the railroads may be overstated. And for the land-grant railroads, the return on the land resources probably should be considered a return to the railroads, but it isn't."

"The rail industry does have a fairly low return on investment because it is so capital intensive, but profitability is not as dismal as ROI figures suggest," says Long.

"A more meaningful figure is the marginal return on investment," says Long. "This is the return on new investment, and this profit measure has been improving. This figure has to be at least as good as the possible return on other investments. Otherwise, the capital won't be invested. Shippers should keep that in mind."

The first quarter results for 1984 are promising. According to the Association of American Railroads, ordinary income, which includes nonrail income with debt interest deducted, is up 250 percent over the first quarter of 1983. Net Railway operating income, which includes only rail income without any interest deduction, is up 114 percent. Even the questionable measure of rate of return on net investment is nearly double the rate for the first quarter of 1983.

The rails are clearly on a fast track to financial recovery.

Cost controls will be a continuing concern, especially in light of archaic labor work rules. Mergers will have less and less effectiveness in improving productivity. But the real financial danger to the railroads is a shipper backlash to deregulation. That could derail the rails, and maybe rail shippers as well. ★

		OPERATING REVENUES (\$ millions)	NET OPERATING INCOME* (\$ millions)	INCOME BEFORE EXTRAORDINARY ITEMS* (\$ millions)	REVENUE NET INCOME* (\$ millions)	NET INVESTMENT* (millions)	RETURN ON INVESTMENT* (percent)
Missouri-Kansas-Texas	1983	249.6	16.7	5.0	5.0	7,137	5.70
	1982	231.9	17.3	5.1	5.1	7,668	7.03
Missouri Pacific	1983	1,652.0	124.7	67.0	67.0	49,161	4.86
	1982	1,678.7	148.2	108.6	108.6	49,766	6.32
St. Louis Southwestern	1983	367.7	7.0	22.1	22.1	13,205	1.04
	1982	340.9	27.8	33.8	33.8	11,319	4.28
Soo Line	1983	293.2	12.2	12.9	12.9	8,791	2.91
	1982	284.1	12.3	15.2	15.2	7,924	2.98
Southern Pacific	1983	1,963.7	(66.3)	(43.4)	(43.4)	61,428	-0-
Transportation Co.	1982	1,996.0	(85.6)	8.1	8.1	59,505	-0-
Union Pacific	1983	1,809.3	131.9	118.7	118.7	61,185	4.60
	1982	1,773.3	127.7	105.0	105.0	59,677	4.40
Western Pacific	1983	147.3	(12.2)	(10.3)	(10.3)	5,100	-0-
	1982	171.7	(8.1)	(4.0)	(4.0)	3,854	-0-

*Net Railway Operating Income—Difference between operating revenues and the total of railway operating expenses, railway tax accruals and net equipment and joint facility rents.

*Income Before Extraordinary Items—Net income after including fixed charges, non-operating income, unusual or infrequent items, and earnings attributable to discontinued segments but before extraordinary items and cumulative effect of changes in accounting principles.

*Net Income—Net income after extraordinary items and cumulative effect of changes in accounting principles.

*Return on Net Investment—Ratio of net railway operating income to net investment in railway property used in transportation services at end of previous calendar year. The latter includes an allowance for working capital based upon the Commission's Rail Form A formula. If net investment data as of the end of each quarter were available, returns on investment would be computed by using an average of the net investment at the beginning and at the end of the respective twelve-month periods. However, net investment data is generally only available as of the end of the calendar year; a substantial portion of this data is derived from annual reports (Form R-1) of Class I line-haul railroads which are required to be filed with the Commission by March 31 of the following year. Thus, the net investment data used for this report which represent the latest available end-of-year data are not averaged in order to assure that net railway operating income is more closely equated, timewise, with the railroad assets generating this income. The symbol -0- for return on net investment indicates a deficit net railway operating income.

*Large difference between Consolidated Rail Corporation's net income and net railway operating loss for 1982 was attributed primarily to \$135.1 million of unusual or infrequent income items in 1982, consisting of: (a) \$91 million of sales tax benefits under provisions of the Economic Recovery Tax Act of 1981; and (b) a \$44.1 million reversal of allowances for uncollectable receivables resulting in the transfer of commuter operations to regional commuter authorities.

*1983 data shown above for the Western Maryland Railway Company reflect operations for the four months ending April 30, 1983. Effective May 1, 1983, the Western Maryland's properties were operated by an affiliate, Baltimore and Ohio Railroad Company. Consequently, the results of operations over the lines of the Western Maryland, subsequent to May 1, 1983, are included in the data reported by and shown above for Baltimore and Ohio.

*Illinois Central Gulf Railroad Company reported a \$45.3 million net railway operating income and a \$41.8 million net income for the fourth quarter of 1982 because of a \$58.5 million year-end write-off of its deferred income tax liability. This resulted in a large negative income tax expense. Consequently, net railway operating loss of \$29.2 million and net loss of \$24.9 million for the twelve months ending December 31, 1982 were substantially reduced because of this \$58.5 million adjustment. Management disclosed that an extensive study resulted in a finding of no deferred income tax liability.

*Effective January 1, 1983, the Seaboard Coast Line Railroad, the Louisville and Nashville Railroad, the Clinchfield Railroad and the Georgia Railroad merged to become the Seaboard System Railroad, Inc. Data shown for periods prior to January 1, 1983 were repeated, for comparative purposes, to include these four railroads.

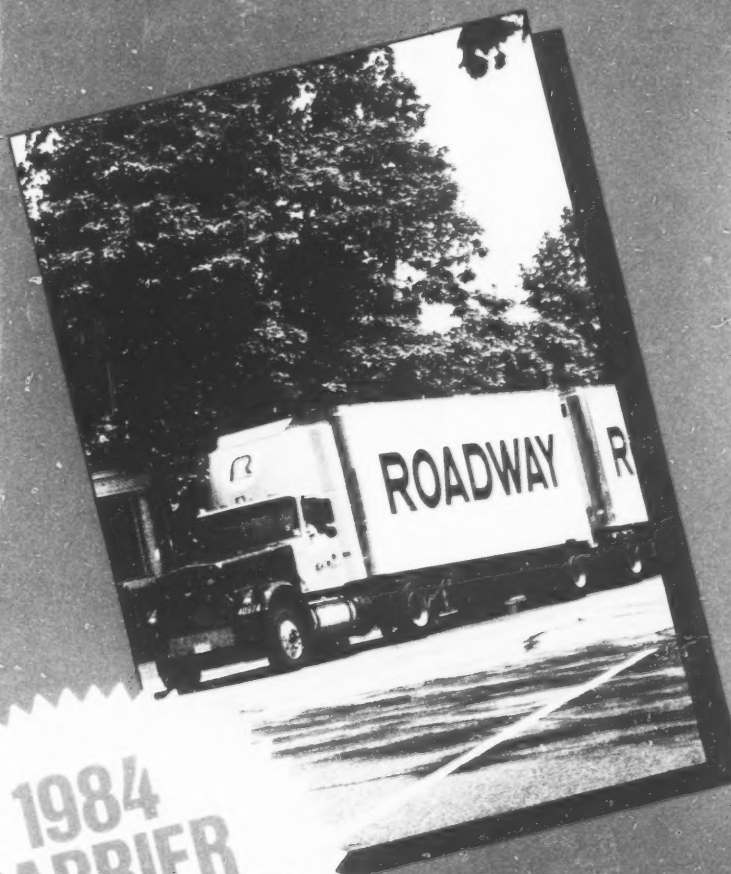
*Large difference between Seaboard System Railroad's net railway operating income (loss) and net income for the twelve months ending December 31, 1982 was attributable primarily to \$153.7 million of dividend income from Atlantic Land and Improvement Company, a wholly owned subsidiary. This resulted from the latter company's sale of a wholly owned subsidiary.

Chilton's

SEPTEMBER 1984

DISTRIBUTION

FOR TRAFFIC & TRANSPORTATION DECISION MAKERS



HERE COME THE BEST!

**1984
CARRIER
MARKETING
AWARDS**

NASSTRAC'S SHIPPER OF THE YEAR
ENCYCLOPAEDIA BRITANNICA
REWRITES THE BOOK

MOTOR CARRIERS
BREAK THE MOLD

ALL COURIERS
GREAT AND SMALL

DISTRIBUTION'S
4th QUARTER FORECAST

MS SUSAN GARNER
10-1
CONGRESSIONAL INFORMATION SERVICES
4520 EAST-WEST HIGHWAY
BETHESDA MD 20814